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Capacity Building and Integrated Reporting: A Framework for Development

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ABSTRACT

The financial crisis of 2007-2008 brought into sharp focus the reality that the regulation of corporate reporting is just one piece of a larger regulatory configuration, and that forces are at play that would subjugate accounting standard setting to broader regulatory demands. This paper presents a framework for an expanded view of capacity building and regulation of integrated (financial and non-financial) corporate reporting. The sections in the study have been analyzed through the lens of financial reporting standards, non-financial reporting codes and standards, auditing standards, and professional qualifications. It then provides an analysis of existing national institutional models supporting implementation and enforcement of the laws and regulations for high-quality corporate reporting through the lens of stock exchanges and SEC (Securities and Exchange Commissions), stock exchanges, and audit public oversight boards. It concludes that the need for far greater coordination among regulators on a global basis in order to avert future worldwide economic disasters.

Keywords: Capacity Building, Financial Reporting, Financial Regulation, Integrated Reporting

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INRODUCTION AND SUMMARY

The financial crisis has brought into sharp focus the reality that the regulation of corporate reporting is just one piece of a larger regulatory configuration, and that forces are at play that would subjugate accounting standard setting to broader

regulatory demands. Today, in the aftermath of the financial crisis of 2007–2009, financial accounting standard setting finds itself drawn into the orbit of complex political processes focused on restructuring the regulation of the world's financial markets. Proposals abound for how regulation of financial markets and financial institutions should be changed to mitigate the potential for such large-scale financial meltdowns in the future. The crisis has energized politicians, regulators, and economists to scrutinize financial accounting standards as never before, creating significant pressure for change.

The current trend is for policies to be developed by international groups, so any regulator taking part in such discussions must have a solid understanding of international principles of regulation, cooperation, and enforcement. Regulators need to increase the levels of international communication and cooperation with other regulatory organizations. International groups include the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, and the International Association of Insurance Supervisors. Standards developed in international forums must be backed by economic analysis to achieve the best regulations. Global standards from these groups are adapted and applied to local markets.

Comparative views with regulatory systems enable regulators to develop a more subjective approach to their own and other systems of regulation. If other financial centers have developed different principles and rules: Why is this? What are their objectives? Could they be integrated at home? How can varying rules be met in different centers? A framework for capacity building and integrated reporting includes:

1) An analysis of existing regulatory systems and institutional models to have a better understanding of the similarities and differences among existing systems with a view to promoting high-quality corporate reporting, including: on IFRS; ISAs; and environmental, social and governance.

2) An identification of good practices that could guide decision makers (at the national level) in formulating appropriate policies standards and codes that lead to implementation and enforcement in a consistent manner to promote global comparability. The sections in the study have been analyzed through the lens of-

1. Financial Reporting Standards
2. Non-Financial Reporting Codes and Standards
3. Auditing Standards
4. Professional Qualifications

Other sections express their opinions on the analysis of existing national institutional models supporting implementation and enforcement of the laws and regulations for high-quality corporate reporting through the lens of:

1. Stock Exchanges and SEC (Securities and Exchange Commissions)
2. Stock Exchanges
3. Audit Public Oversight Boards

MACRO PRUDENTIAL POLICY

Macroprudential regulation characterizes the approach to financial regulation aimed to mitigate the risk of the financial system as a whole (or "systemic risk"). In the aftermath of the financial crisis, there is a growing consensus among policymakers and economic researchers about the need to re-orient the regulatory framework towards a macroprudential perspective.

The macro and microprudential perspectives differ in terms of their objectives and understanding on the nature of risk. Traditional microprudential regulation seeks to enhance the safety and soundness of individual financial institutions, as opposed to the macroprudential view, which focuses on welfare of the financial system as a whole. Further, risk is taken as exogenous under the microprudential perspective, in the sense of assuming that any potential shock triggering a financial crisis has its origin beyond the behavior of the financial system. The macroprudential approach, on the other hand, recognizes that risk factors may configure endogenously, i.e., as a systemic phenomenon. In line with this reasoning, macroprudential policy addresses the interconnectedness of individual financial institutions and markets, as well as their common exposure to economic risk factors. It also focuses on the pro-cyclical behavior of the financial system in the effort to foster its stability.

The financial crisis has led an increasing number of countries to introduce institutional changes to support macroprudential policies. These reforms follow two clear trends. In some cases, countries are moving towards more integrated institutional frameworks. In other countries, financial stability committees are becoming popular, often chaired by a representative of the executive branch or the central bank. To some degree, these trends follow some regional pattern associated with existing institutional arrangements.

Macroprudential Regulation in Advanced Economies

In the advanced economies, in particular in Europe, several countries are integrating prudential supervision into the central bank. Typically, these countries (Belgium, France, and the United Kingdom) have adopted some form of "twin peaks" model, as in the Netherlands, leaving conduct-of-business supervision as a responsibility of a separate agency. Ireland has opted for stronger integration as all supervision is conducted by the central bank. The United Kingdom also created a financial policy committee (FPC) within the central bank, chaired by the governor and including government representation. The United States differs from the former arrangements inter alia because the government chairs the Financial Stability Oversight Council (FSOC), which functions separately from the Federal Reserve.

Macroprudential Regulation in Emerging Economies

In emerging market countries, changes in the institutional setup typically feature a new committee with macroprudential policy responsibilities; however, no clear tendency in terms of who chairs these committees can be established. In Chile and Mexico, recently established financial stability committees are chaired by the MOF, whereas in Turkey, the deputy prime minister is the head of this committee. Contrary to these, in Asia, Malaysia established a financial stability committee within the central bank structure, chaired by the central bank governor in 2009—as did Thailand in 2008.

The International Dimension of Macroprudential Regulation

On the international level, there are several potential sources of leakage and arbitrage from macroprudential regulation, such as banks' lending via foreign branches and direct cross-border lending. Also, as emerging economies impose controls on capital flows with prudential purposes, other countries may suffer negative spillover effects. Therefore, global coordination of macroprudential policies is considered as necessary to foster their effectiveness.

FINANCIAL REPORTING STANDARD

Globalization is making the case for uniform accounting throughout the world irresistible. Investors are attracted to those markets that they understand and trust, and in which they have confidence. Besides investors and analysts, other stakeholders such as employees, creditors, suppliers, customers, lenders and non-governmental organizations are voicing their need for top quality information on which to base their investment decisions. They want to be able to compare the information published by a target company with its competitors, whether based in the same country or in other parts of the world. For those reasons, countries which adopt internationally recognized and –understood accounting standards for financial reporting will be positioned at a significant advantage to those who do not.

The financial reporting practices of companies vary vastly between different countries. This leads to great complications for those preparing, consolidating, auditing, and interpreting published financial statements. Furthermore, due to the frequent overlapping between the preparation of internal financial information and the preparation of published information, the complications spread further. To combat this, many organizations throughout the world, such as the United Nations (UN), the World Bank, the Organization for Economic Co-operation and Development (OECD), the World Trade Organization (WTO), the European Union (EU), the International Organization of Securities Commission (IOSCO), and many others, are involved in attempts to harmonize or standardize accounting. These organizations support the effort of the International Accounting Standards Board (IASB) [formerly known as the International Accounting Standards Committee (IASC)] to eliminate barriers to investment flows between nations and to assist the efficient allocation of saving to investment on a global basis. The accounting profession, led by the International Federation of Accountants (IFAC) and other capital market participants, sees the globalization of business as increasingly supporting the need for one set of accounting standards used throughout the world to produce comparable financial information.

Role of the IFAC (International Federation of Accountants)

IFAC's mission is to serve the public interest by: contributing to the development, adoption, and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants; promoting the value of professional accountants worldwide; speaking out on public interest issues where the accountancy profession's expertise is most relevant.

Role of the IASB (International Accounting Standards Board)

The IASB cooperates with national accounting standard-setters to achieve convergence; it is a private organization with no legal power to enforce the application of its standards. Financial support is received from the major accounting firms, private financial institutions, and industrial companies throughout the world, central and development banks, and other international and professional organizations. Where the IASC was part of a world of "harmonization"—or movement toward each other—the IASB is firmly committed "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards" and "to bring about convergence of national accounting standards and IFRSs to high quality solutions" (*Preface to IFRS,* London: IASC Foundation).

IFRS (International Financial Reporting Standards)

The IFRS Foundation is an independent, not-for-profit private sector organization working in the public interest. Its principal objectives are:

1. To develop a single set of high quality, understandable, enforceable and Globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;
2. To promote the use and rigorous application of those standards;
3. To take account of the financial reporting needs of emerging economies and Small and medium-sized entities (SMEs); and
4. To bring about convergence of national accounting standards and IFRSs to high quality solutions.

Outright adoption or convergence with International Financial Reporting Standards (IFRS) [formerly known as the International Accounting Standards (IAS)] is now a global phenomenon that is rapidly gathering pace. The EU, Australia, Russia, and several other countries in the Middle East[1] and Africa have decided on a wholesale, mandatory change to IFRS. Furthermore, the United States (US), South Africa, Singapore, Turkey, and Malaysia[2] are committed to convergence with the international benchmark. Furthermore, many believe that the adoption of IFRS reduces cost of operations for multinational companies, coordinates internal and external reporting of an entity's operations, eliminates confusion and allows accounting professionals to operate more efficiently across the world, as well as reduces the cost that a country could incur in developing their own standards.

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[1] *The banking sector is better developed in the Middle East than elsewhere in the MENA region (The Middle East region of Afghanistan, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Pakistan, Qatar, Saudi Arabia, Syria, United Arab Emirates (UAE), West Bank and Gaza, and Yemen. The region is grouped with North African countries, together known as the MENA (Middle East and North Africa) region, and includes Algeria, Djibouti, Libya, Mauritania, Morocco, Somalia, Sudan, and Tunisia). The Gulf Cooperation Council (GCC) is making progress to fit in with global frameworks. The development of regulatory institutions in the GCC has shown marked progress, as growth in the finance sector has brought with it increased awareness of the need to keep up and, indeed, be proactive. Saudi Arabia's Capital Market Authority is one example of a new regulatory authority in the region, and Qatar is seeing the streamlining of market regulators—both are examples of the development of effective bodies. The Dubai International Financial Centre has introduced a more accessible court system, working with new regulations in English, and the Dubai Financial Services Authority issued a hedge fund code of practice at the end of 2007, which was the first such code to be issued by a financial market regulator. Regulators in the region are growing in size and strengthening their links regionally and internationally, but the picture remains mixed with some further down the line with Basel II than others. As plans for a GCC common currency and the creation of a common GCC market seem to be making some progress, the opening of markets will mean that regulators will have to work more closely to create a common approach. Progress has undoubtedly been made, but with freer markets and greater foreign interaction, more will be required. World Trade Organization (WTO) accession initiatives and International Monetary Fund (IMF) financial sector assessment programs will bring challenges in the future. A study carried out by the IMF showed that MENA countries were fairly strong in financial regulation and supervision, but there are wide variations. In those countries with the most advanced financial sectors, appropriate financial regulation and supervision was found to be an important part of the development of the financial sector. In other words, better financial sector regulation promotes a more healthy financial system and economy.*

[2] *Malaysia has made significant investments in developing efficient and well-regulated capital and financial markets, as well as strengthening the institutional framework for the regulation of the accounting and auditing profession. The Malaysian Institute of Accountants (MIA) which is the main regulatory body for accountants, is a member of the International Federation of Accountants (IFAC), and is responsible for setting auditing and ethical standards in Malaysia. The Malaysian Accounting Standards Board (MASB) is the accounting standards-setting body in Malaysia. The Audit Oversight Board is responsible for ensuring and enforcing compliance with auditing and ethical standards by public interest entity auditors and can require MIA to amend those standards. Full convergence with International Financial Reporting Standards (IFRS) is likely to be achieved by 2012. The clarified International Standards on Auditing (ISA) have been adopted in full and became effective for periods beginning on or after January 1, 2010, and the adopted International Standard on Quality Control (ISQC1) became effective January 1, 2010. Additionally, all entities that enter into Islamic Financial Transactions are required to fully comply with the MASB-issued Financial Reporting Standards. The institutional framework of corporate financial reporting by public interest entities in Malaysia is well developed with multiple layers of systematic control, review, and enforcement. There is also high-level collaboration and coordination between the accounting profession and the regulatory enforcement agencies.*

More and more countries allow or insist on the use of IFRS for the preparation of financial statements. However, some countries or regions appear to believe that these IFRS must be adapted to their specific needs—for example, Australia with the creation of A-IFRS, Europe instituting a "carve-out" for hedge accounting, and India looking to adapt the standards to an Indian context. These local interpretations of IFRS might give a false impression of comparability and lead to erroneous conclusions if the user of the information does not know the local differences. The United States, by contrast, has stated that foreign registrants that use IFRS instead of US GAAP must apply IFRS as published by the IASB. Users of the European carve-out are encouraged to comply with full IFRS as soon as possible, and within a maximum of two years.

IFRS and the European Union [3]

Europe was one of the first regions to require the application of IFRS. In 2002 it published the IAS Regulation (EC) 1606/2002, which required listed entities to use IFRS for the preparation and presentation of their consolidated financial statements as from 2005. EU member states were allowed to enlarge this obligation to unlisted entities and/or individual financial statements. Since the legislation takes the form of a regulation (as opposed to a directive), member states do not have to translate the requirements to their national legislation. To ensure that current and future standards do not act to the detriment of European interests, an endorsement mechanism was established. At this moment the difference between the standards of the IASB and the endorsed standards concerns only hedge accounting (called the "carve-out"). Once a standard or interpretation is endorsed (a process that can take a year or more), it is published in the official journal of the European Union and is applicable in all member states. The approach to regulation of the markets is twofold. Member states each have their own regulatory body at national level, the role and purpose of which is to set policy, enforce applicable laws, license providers of financial services, work to prevent financial crime, and maintain confidence in the financial system. The more well-known regulatory bodies include the Financial Services

[3] *This section is based on Cătălin Nicolae ALBU and Nadia ALBU from the Bucharest Academy of Economic Studies, Romania- "Financial Reporting Standards, Romania," working paper, 2012.*

Authority (United Kingdom), Autorité des Marchés Financiers (AMF) (France), Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) (Germany) and the Netherlands Authority for the Financial Markets. There is no supranational regulatory body for the whole of the EU. Instead, markets around the EU are managed through the imposition of Directives, with which member states must comply. The European Commission launched its Financial Services Action Plan (FSAP) in 1999, which was the cornerstone of the EU's aim to create a single market for financial services, and was intended to last for six years. The FSAP consisted of 42 articles aimed at harmonizing financial services markets within the EU. The most important Directive that emerged from this plan is the Markets in Financial Instruments Directive (MFID), which came into effect in 2007.

Having different national accounting systems is costly for companies and investors. Companies have to keep duplicate accounting systems, and investors are wary about buying shares of companies whose accounts they do not understand. The problem arises because accounting regulation has developed over a couple of centuries in national economies whose needs have differed from each other and whose ways of regulating people's activities have also differed. What people are looking for from accounting is often different. Differences in accounting systems create inefficient transfers of information that have a negative impact on the allocation of resources, efficiency of capital markets, and tax harmonization. Local amendments of IFRS reduce the comparability of IFRS financial statements, one of the objectives of the IASB.

Romania, an ex-communist country, has been a member of the European Union (EU) since 2007. After the communist period (1947–1989), Romania underwent a continuous reformation process of its financial reporting model with the country's political objective being the EU accession; therefore Western accounting systems were considered as models for reforming the Romanian one. Financial reporting regulations in Romania prove a strong orientation towards IFRS but significant differences remain, and efforts are being made for the adoption of the same. The chapter gives a detailed account on the steps taken by regulatory instructions towards the same. The chapter also emphasizes the roles played by international organizations such as the International Monetary Fund, the World Bank, or OECD in reforming the accounting and management system.

Convergence on IFRS is taking us to a bright new world where investors can indeed take their pick from around the globe, and where companies maintain a single accounting basis throughout their network. IFRS are already either compulsory or permitted for listed companies in more than 100 countries around the world. It will take time for investors to become confident about reading IFRS accounts—although that happened quickly within the European Union. But multinational companies should quickly reap the benefits of having uniform systems across the globe and will be able to exploit the opportunities of being listed on several stock exchanges at lower cost.

Country	Status for Listed Companies as of December 2011
Argentina	Required for fiscal years beginning on or after 1 January 2012
Australia	Required for all private sector reporting entities and as the basis for public sector reporting since 2005
Brazil	Required for consolidated financial statements of banks and listed companies from 31 December 2010 and for individual company accounts progressively since January 2008
Canada	Required from 1 January 2011 for all listed entities and permitted for private sector entities including not-for-profit organizations
China	Substantially converged national standards
European Union	All member states of the EU are required to use IFRSs as adopted by the EU for listed companies since 2005
France	Required via EU adoption and implementation process since 2005
Germany	Required via EU adoption and implementation process since 2005
India	Convergence with IFRSs at a date to be confirmed
Indonesia	Convergence process ongoing; a decision about a target date for full compliance with IFRSs is expected to be made in 2012
Italy	Required via EU adoption and implementation process since 2005

Country	Status for Listed Companies as of December 2011
Japan	Permitted from 2010 for a number of international companies; decision about mandatory adoption by 2016 expected around 2012
Mexico	Required from 2012
Republic of Korea	Required from 2011
Russia	Required from 2012
Saudi Arabia	Required for banking and insurance companies; full convergence with IFRSs currently under consideration.
South Africa	Required for listed entities since 2005
Turkey [4]	Required for listed entities since 2005
United Kingdom	Required via EU adoption and implementation process since 2005
United States	Allowed for foreign issuers in the US since 2007; target date for substantial convergence with IFRSs is 2011 and decision about possible adoption for US companies expected in 2011

NON-FINANCIAL REPORTING STANDARDS AND CODES

Over recent years, the level of interest from stakeholders in corporate environmental, social and ethical performance has risen significantly. Non-financial reporting often referred to as sustainability reporting, enables businesses to be transparent in communicating these non-financial aspects of their management and performance.

"Corporate governance is concerned with ensuring the firm is run in the interests of shareholders." This principle of running the company in the interest of shareholders is inherent in the legal systems of Anglo-Saxon countries, and law and regulations play a major role in corporate governance and the enforcement measures of the corporate world.

[4] *Over the years Turkey undertook broad stabilization and structural reforms to open up isolated and uncompetitive industries to international competition, which lead to structural changes in different fields of economic life. Turkey is the fastest growing economy in the EU and one of the fastest growing economies in the world with real GDP growth rates of 9.2% in 2010 and 8.5% in 2011. As one of the top 10 emerging markets, it is also a member of G-20. Recep Pekdemir (Istanbul University)– "Laws and Regulations Governing Corporate Reporting in Turkey." Working paper, 2012.*

In the UK, the Cadbury Code interpretation, "comply or explain" is used, and rules are not strictly enforced but principles need to be respected. In the US, corporate governance is rules-driven. This creates a danger that the law must be broken down into rules and regulations for each company, so that companies are able to comply with them. Each measure is administered by a particular set of forms and reports. The danger is that the basic principles can become lost in this jungle of administrative forms, and that companies end up complying only with forms, which may lead to a simple box-ticking approach. This would effectively mean that the original purpose is lost.

The Anglo-Saxon model is just one of those that is globally used. However, in other parts of the world, the functioning of companies has evolved from different societal principles. With broader objectives, corporate governance does not concentrate solely on companies and their owners, but takes into consideration a broader spectrum of stakeholders (for example, shareholders, employees, government, environment, and local community). The objective is that everybody can potentially be better off by using resources accountably and in a reasonable manner.

In certain European countries (such as France and Germany), Japan, and more recently in India, the broader approach is stressed, and companies in these countries do not take the creation of shareholders' value as their major goal. Again, the operationalization of goals may be a different issue and is practiced differently in companies. Many companies now produce reports on sustainability or corporate responsibility in line with their global reporting initiative (GRI). For example, German and French companies have recently focused on employees but not on all aspects of the sustainability movement.

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI), created in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Program (UNEP), aims to raise the level of sustainable development methods to be on a par with that of financial reporting to ensure the comparability, credibility, frequency, and verifiability of information communicated. GRI has embarked upon this task with the active participation of companies, environmental and social NGOs, accounting firms, trade unions, investors and other stakeholders across the globe. Guideline G4, the fourth

generation of Sustainability Reporting Guidelines, is now in development. The next generation of GRI Guidelines addresses requirements for sustainability data, and enables reporters to provide relevant information to various stakeholder groups. It also improves on content in the current Guidelines—G3 and G3.1—with strengthened technical definitions and improved clarity, helping reporters, information users, and assurance providers.

Achievements and Outreach of GRI

The goal of the GRI's Sustainable Development Strategy: *Multi-stakeholder Engagement and Sustainability Reporting in Developing Countries* are to contribute to poverty alleviation and sustainable economic development from an economic, social, and environmental point of view. GRI's Sustainability Reporting Guidelines are relevant for industrialized and developing countries. Since GRI's inception more than 10 years ago, the use of GRI's Guidelines has grown fast in developing countries.

The Guidelines are available in 25 languages with more to follow. GRI training and coaching activities are held across the globe and have increased the Guidelines' accessibility in developing countries. GRI's training program is implemented by selected GRI-certified training organizations in different countries. In order to meet the increasing demand of national organizations for engagement and to share their sustainability reporting experiences and best practices, GRI created a Regional Network Program. In over 30 developing countries there are companies, civil society representatives, trade unions and government staff that are and have been part of the global GRI network. In addition, GRI increased its presence on the ground through Focal Points. Currently GRI has Focal Points in Australia, Brazil, China, India, and the USA.

International Integrated Reporting Council (IIRC) [5]

The International Integrated Reporting Council (IIRC) was established to support the evolution of integrated reporting. The IIRC brings together the world's leaders from the corporate, investment, accounting, securities, regulatory, academic, and standard-setting sectors, as well as civil society. The IIRC aims to

[5] *This section is based on Takayuki Sumita, Executive Director, Japan Machinery Center for Trade and Investment – Brussels Office and Toshimichi Matano from The Chicago Harris School – "Disclosure of Non-Financials—Providing Truly Desired Information," working paper, 2012.*

develop a new approach to reporting—one that is fit for purpose in the 21st Century—building on the foundations of financial, narrative, governance, and sustainability reporting, but in a way that reflects the reality that all these elements are closely related and interdependent, and flow from the organization's overall strategy and business model. GRI is one of the co-conveners of the IIRC and is an active participant in its working groups and task forces.

The IIRC is currently developing an Integrated Reporting Framework, aiming to synergize with the principal financial reporting standards and major sustainability reporting frameworks. A discussion paper, Towards Integrated Reporting—Communicating Value in the 21st Century, was available for public comment from 12 September to 14 December 2011. A summary of submissions to the discussion paper is to be published in March 2012. In October 2011 the IIRC launched a Pilot Program to encourage companies to try and test the principles and practicalities of integrated reporting. Currently 56 companies are participating in the Pilot Program. The IIRC will develop an International Integrated Reporting Framework exposure draft, reflecting the responses received on the discussion paper and the experience gained from the first year of the Pilot Program. The exposure draft is expected to be published for public comment in 2012.

In 2012 the IIRC will be working towards:

- The development of its global Integrated reporting program providing input to the development of the Integrated Reporting framework and guidance.
- A review and analysis of the Integrated Reporting Discussion Paper consultation providing input to the development of the Integrated Reporting framework and guidance.
- A review and development of the IIRC's governance structure to support the development and adoption phase of Integrated Reporting.
- Ongoing engagement with Integrated Reporting stakeholders.

IIRC'S Reporting Framework and GRI's Reporting Guidelines [6]

Increasingly, companies are integrating sustainability disclosures into their regular reporting cycle. Today, some 4,500 organizations report their sustainability performance.

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[6] *This section is based on Lois Guthrie, Executive Director of the Carbon Disclosure - "A Case Study on Corporate Climate Change-Related Reporting Codes and Standards," working paper, 2012.*

The IIRC is seeking to build on past advances in corporate reporting, and on developments currently in transition, both financial and non-financial, and to consolidate divergent reporting strands under one unifying, global framework: that of integrated reporting. The IIRC's Integrated Reporting Framework aims to be of use in informing the reporting process, but not to provide a full reporting standard or guidelines. For the framework to provide complete guidance, it would need to be used alongside financial reporting standards and sustainability reporting guidelines.

Reporting standards, such as IASB's International Financial Reporting Standards (IFRS) or country-specific Generally Accepted Accounting Principles (GAAP), provide the IIRC with high quality guidance for financial reporting. GRI is currently developing the next generation of the Guidelines (G4). Key to the development of this next generation is that the Guidelines provide companies with a stepping stone towards integrated reporting and, in the context of the IIRC's framework, help users formulate content for integrated reports.

Climate change-related disclosure also represents an evolution of reporting from the introduction of formal financial reporting. The gradual accretion of corporate governance, environmental and social information over time has led to the development of connected or integrated reporting of financial and non-financial information in more recent times. Institutions have been developing corporate climate change-related reporting requirements, types of provisions like legal requirements, standards protocols and government-sponsored guidance requiring climate change-related reporting and also the content of climate change-related reporting. National examples of approaches to climate change-related reporting in Australia, Brazil, Denmark, France, Japan, South Africa, UK, and the US give us an understanding of the current status and practices of climate change-related disclosure in countries.

AUDITING STANDARD

The contemporary development of international audit regulation is connected to the growing significance of international investors who demand financial reports that are prepared and audited in accordance with globally accepted international standards. International Standards for Auditing (ISAs) are set by the International Auditing and Assurance Standards Board (IAASB), which is situated within the International Federation of Accountants (IFAC)—a private organization whose

member bodies are the national associations of professional accountants in each country. The International Organization of Securities Commissions (IOSCO) is another important organization in this respect.

During the last two decades, there has been a continued increasing concentration in the international auditing profession, with the large firms getting a greater share of the audit market. While the global audit regulatory arena is complex, it is possible to draw out a number of important characteristics. While contemporary audit regulation engages directly with audit practice at the national level, it is being driven primarily by events and strategic action at the global level.

The development in this global regulation of audit has been rapid during the current decade, and, associated with the identification of reliable financial reporting, is becoming an essential part of a wider international financial architecture. Significant strategic actions have been made by international organizations such as the EU, IOSCO, FSF/ FSB, and the World Bank to aid, support, and increasingly mandate the usage of international standards on auditing. While these organizations are primarily governmental in character, the main international audit standard-setter, the IAASB under the auspices of IFAC, is classified as private in nature, as are the large audit firms who are also closely involved, albeit in a less public way.

Role of the International Auditing and Assurance Standards Board (IAASB)

The IAASB is a standard-setting body designated by, and operating under, the auspices of IFAC. The IAASB is subject to the oversight of the Public Interest Oversight Board (PIOB). The objective of the IAASB is: *"To serve the public interest by setting, independently and under its own authority, high quality standards dealing with auditing, review, other assurance, quality control, and related services, and by facilitating the convergence of national and international standards."*

The IAASB aims to achieve its objective through the following strategic initiatives:

a) *Development of Standards*—Establish high quality auditing, review, other assurance, quality control, and related services standards.
b) *Global Acceptance, Convergence and Partnership*—Promote the acceptance and adoption of IAASB pronouncements throughout the world; and support a strong and Cohesive international accountancy profession by coordinating with IFAC member bodies, regional organizations, and national standard setters to achieve the objective of the IAASB.

c) *Communication*—Improve the quality and uniformity of auditing practices and related services throughout the world by encouraging debate and presenting papers on a variety of audit and assurance issues; and increase the public image and awareness of the activities of the IAASB.

In fulfilling its objective, the IAASB develops the following high quality standards: International Standards on Auditing (ISAs); International Standards on Review Engagements (ISREs); International Standards on Assurance Engagements (ISAEs); International Standards on Quality Control (ISQCs); International Standards on Related Services (ISRSs); and Practice Statements.

Role of the International Forum of Independent Audit Regulators (IFIAR)

The International Forum of Independent Audit Regulators (IFIAR) was established on 15 September 2006 by independent audit regulators from 18 jurisdictions. IFIAR's membership has grown in light of the establishment of new independent audit regulators in different jurisdictions around the globe, bringing together independent audit regulators from a total of 41 jurisdictions.

IFIAR focuses on the following activities:

a) Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms.
b) Promoting collaboration and consistency in regulatory activity.
c) Providing a platform for dialogue with other international organizations that have an interest in audit quality.

Since its creation, IFIAR has convened on a bi-annual basis for high-level plenary meetings and on an annual basis at an Inspection Workshop to exchange information and experiences relating to inspections of audit firms. IFIAR has established a number of Working Groups that address various work streams important to audit regulators and form the core of IFIAR's activities alongside its plenary meetings and workshop.

IFIAR became a Member of the Monitoring Group during 2011; the Group oversees audit and accounting related standard setting activities of the International Federation of Accountants (IFAC), monitors the activities of the Public Interest Oversight Board (PIOB), and convenes to discuss issues and share views relating to international audit quality and regulatory and market developments having an impact on auditing.

Professional Qualifications [7]

Strengthening the competencies of professional accountants is a central element in global efforts toward continuous improvements in corporate reporting and auditing practices. Professional accountants and other participants constitute part of the human capacity that serves as an integral part of the process of producing high-quality corporate reporting. The education, training, and qualification of professional accountants are embedded components in the capacity-building framework for high-quality reporting.

Accountancy can be said to be the language of business, it has a key role to play in binding the global marketplace together. National professional bodies have a continuing role to play in regulating their members and, usually, in testing competence in local law and tax. The process of globalization means, however, that the benchmarks of performance are increasingly set at the international and not the national level, meaning that accountants in the 21st century need to have the skill set which reflects this development. The bodies with statutory recognition for audit purposes in their home territory, the Association of Chartered Certified Accountants (ACCA), CPA Australia (CPAA), the Certified General Accountants Association of Canada (CGAA), American Institute of Certified Public Accountants (AICPA), and Institute of Chartered Accountants in England and Wales (ICAEW) represent examples of qualifications which are examined other than in their home territory. The UK Chartered Institute of Management Accountants (CIMA) represents a management accounting qualification, which is available globally.

Globalization and convergence of standards are driving the spread and growth of global professional accountancy qualifications. The basic proposition for these qualifications is that they train aspiring accountants to a level of competence, which equips them to work in the world of global standards while providing them with the skills they need to understand and work with divergent national practices as well. The demand for these global qualifications derives from international firms, which wish to move staff across national frontiers as well as individuals who wish to emigrate.

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[7] *This section is based on Caroline Aggestam, Associate Professor, Department of Accounting and Auditing, Copenhagen Business School- "An Overview of Professional Accounting Qualification Systems in Five Selected Countries," working paper, 2012.*

Role of the International Accounting Education Standards Board IAESB [8]

The International Accounting Education Standards Board is an independent standard-setting body that serves the public interest by strengthening the worldwide accountancy profession through the development and enhancement of education. The vision of the IAESB is to work in the public interest to develop high-quality accounting education standards and guidance that are adopted and applied internationally.

The IAESB is focused on developing the professional knowledge, skills, values, ethics, and attitudes of the accountancy profession. It develops and issues publications on pre-qualification education and training of professional accountants, and on continuing professional education and development for members of the accountancy profession. These publications include: International Education Standards (IESs), International Education Practice Statements (IEPSs), International Education Information Papers (IEIPs), and support material, such as toolkits or interpretation guidance. The IAESB also acts as a catalyst in bringing together the developed and developing nations, as well as nations in transition, and to assist in the advancement of accountancy education programs worldwide, particularly where this will assist economic development.

IFRS Education Initiative

The objective of the education initiative is to reinforce the IFRS Foundation's goal of promoting the adoption and consistent application of a single set of high-quality international accounting standards. In fulfilling its objective, the education initiative takes account of the special needs of small and medium-sized entities and emerging economies.

Framework-Based Teaching of Principle-Based Standards

The IFRS Foundation education initiative is arranging a series of regional half-day IFRS Teaching workshops to assist IFRS teachers and IFRS trainers educate IFRS accountants more effectively. The main focus of these sessions is encouraging and supporting a *Framework-based* approach to teaching IFRSs to develop in students the ability to make the judgments that are necessary to apply principle-based accounting standards and to prepare students for lifelong learning.

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[8] *This section is based on Mike Walsh , ACCA (Association of Chartered and Certified Accountants) - "A Global Approach to the Training of Professional Accountants," working paper, 2012.*

Most of these sessions are hosted jointly with international and regional academic accounting associations in advance of major accounting conferences.

IFRS for SMEs Training Material

The IFRS Foundation is developing comprehensive free to download training material to support the implementation of the IFRS for SMEs.

Regional IFRS for SMEs Train the Trainer Workshops

The IFRS Foundation is holding regional 'train the trainers' workshops, in co-operation with regional professional associations and the world's development agencies, to build capacity for the implementation of the IFRS for SMEs, particularly in developing and emerging economies.

Working with Academics from Around the World

The education initiative is staffed largely by Academic Fellows (i.e., IFRS Academics on sabbatical leave from the universities). Academic Fellows generally fill a 1-year term. Exceptional candidates will also be considered to fill the post for a period of 6 months. The education staff organizes special interest sessions on IFRS Teaching and IFRS Research. These sessions are held in advance of leading academic conferences and other events. They are frequently held jointly with leading international and regional academic accounting bodies.

Compliance and Regulatory Oversight

A regulatory system is not just about standard setting but also the implementation and enforcement of such standards. Historically, issues of compliance with standards were not given enormous emphasis at the global level—reflecting a range of factors, including the desire to increase the number of countries adopting such standards, a limited level of available resources, traditions of self-regulation and professional peer review, and the clear positioning of responsibilities for compliance, regulation, and oversight activities at the national rather than the international level.

One of the most active and visible initiatives in this area has been the ROSC (Reports on Standards and Codes), program set up by the IMF and World Bank in 1999, which examines the degree to which emerging and developing countries are using key standards and codes (defined to include ISAs and IASs as benchmark

standards for each individual country's reports on accounting and auditing practices). The formal remit is to: "analyze comparability of national accounting and auditing standards with international standards"; and "assist the country in developing and implementing a country action plan for improving institutional capacity with a view to strengthening the country's corporate financial reporting regime."

IFAC has moved towards satisfying these demands through establishing an active Public Interest Oversight Board (PIOB), and, as indicated above, has developed ISAs through the Clarity Project. The members of the PIOB have been selected by leading institutions in the international regulatory community, including IOSCO, the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the European Commission, the World Bank, and the FSF/FSB. Included in the activities of the PIOB is monitoring all the meetings of IFAC's standard-setting committees, making this a very active process of oversight. Thus, IFAC appears to have satisfied one of the regulators' requirements to improve governance arrangements by clearly including the public interest.

IFAC increased its focus on global compliance issues with the launch in 2004 of its compliance program, overseen by the Compliance Advisory Panel (CAP), which seeks to ensure that member bodies are meeting their membership obligations. These initiatives are dealing with the general issue of compliance, but not with the actual compliance of a particular audit firm with ISAs and other standards.

STOCK EXCHANGES AND SEC (SECURITIES AND EXCHANGE COMMISSIONS) [9]

Given their role as the information gateway for the investor community, exchanges often play a greater role in facilitating better company disclosure than other governance practices. Stock exchanges have played an important role in the oversight of listed companies and the promotion of good corporate governance practices. Stock exchanges have established themselves as promoters of the relevant governance recommendations for listed companies through their listing

[9] *This section is based on Alissa Amico, OECD Corporate Affairs Division- "Role for Stock Exchanges in Promoting Transparency and Disclosure," working paper, 2012.*

rules and maintenance requirements, as well as through the exercise of enforcement powers entrusted to them in some jurisdictions. They have contributed to the creation of effective corporate governance frameworks by collaborating with other supervisory, regulatory, and enforcement agencies. The promotion of transparency and disclosure has been an overriding prerequisite for the Exchanges, considering their need to attract investors and to assure them of the integrity of the market where they have invested or are considering investing. There are various exchanges that have been active in providing incentives to already listed companies to commit to higher governance standards. In recent years, exchanges have been part of the movement to promote better environmental, social and governance (ESG) and sustainability practices. The emergence of ESG indices looks to be somewhat of a growing trend in both developed and emerging markets.

Role of the International Organization of Securities Commissions (IOSCO)

The International Organization of Securities Commissions (IOSCO), a body that links national stock exchange regulators, for the IASC to supply standards to be used in conjunction with secondary listings. IOSCO's idea was that all stock exchanges would sign up to a single set of listing requirements for foreign issuers, so dramatically cutting the costs of a secondary listing. In May 2000 IOSCO voted to approve the body on International Accounting Standards (if with some reservations). In June, the European Commission announced that it was going to propose legislation to require the use of the standards by EU listed companies from 2005, and in July the international accounting profession, meeting in Edinburgh, agreed to relinquish its control of the IASC and let the IASB be set up in its place.

The IOSCO Objectives and Principles (IOSCO (2010c)) stress enforcement of securities regulation and information sharing. Regarding international regulatory cooperation, IOSCO (2010d) notes that securities markets and participating financial institutions have become increasingly global, including the operations of market intermediaries, securities markets and exchanges, clearing and settlement systems, and collective investment schemes (including hedge funds). Correspondingly, the activities and scope of information providers (CRAs, auditors, analysts) are global, raising issues for national regulatory policies. During the GFC, lack of information available to national regulators, and different national responses to the crisis highlighted the difficulties that globalization has caused. IOSCO (2010d) provides a set of principles for cross border cooperation, but also notes the complications caused

by the differences in national legislative regimes within which regulators work. These include differences in approach to enforcement, constraints on information sharing, and resources available to the regulator may also impede co-operation.

Role of Financial Stability Board (FSB)

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory, and other financial sector policies. It brings together national authorities responsible for financial stability in significant international financial centers, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The mandate of the FSB is to:

a) Assess vulnerabilities affecting the financial system and identify and oversee action needed to address them.
b) Promote co-ordination and information exchange among authorities responsible for financial stability.
c) Monitor and advise on market developments and their implications for regulatory policy.
d) Advise on and monitor best practice in meeting regulatory standards.
e) Undertake joint strategic reviews of the policy development work of the international standard setting bodies to ensure their work is timely, coordinated, focused on priorities, and addressing gaps.
f) Set guidelines for and support the establishment of supervisory colleges.
g) Manage contingency planning for cross-border crisis management, particularly with respect to systemically important firms.
h) Collaborate with the IMF to conduct Early Warning Exercises.

The FSB is responsible for coordinating and promoting the monitoring of the implementation of agreed financial reforms and its reporting to the G20. In order to strengthen the coordination and effectiveness of this monitoring, the FSB, in collaboration with the standard-setting bodies, established a framework in October 2011—the Coordination Framework for Implementation Monitoring (CFIM)—for monitoring and reporting on the implementation of the G20 financial reforms. The CFIM was subsequently endorsed by the G20 Leaders at the Cannes Summit as a way to "intensify our monitoring of financial regulatory reforms, report on our progress and track our deficiencies."

Audit Public Oversight Boards

In reaction to the problematic audits of Enron, Global Crossing, and other large companies, in July 2002, the passing of the Sarbanes-Oxley Act replaced the self-regulation of the US auditing profession with a system of independent inspection by the Public Company Accounting Oversight Board (PCAOB). Similar initiatives have followed in other countries, and there is a whole new international emphasis on auditor oversight as an essential feature of audit regulation. This oversight is, for obvious reasons, done at local level on a national basis. However, the Sarbanes-Oxley Act did not exclude foreign registrants on US stock exchanges from the requirement for oversight by the PCAOB. This appears to have encouraged a number of large countries to establish their own auditor oversight systems in the hope that there will be mutual recognition of each other's systems. This, however, has only occurred to a small extent, resulting in a considerable amount of extraterritorial activity by the PCAOB audit inspectors.

The issue of public oversight developed further on the international stage through the establishment in September 2006 of the International Forum of Independent Audit Regulators (IFIAR). IFIAR is committed to sharing knowledge and experiences of the audit market and associated regulatory activities between independent national audit regulatory agencies. It seeks to promote collaboration and consistency in regulatory activity and to act as a platform for dialogue with other organizations with an interest in the quality of auditing. There are currently 28 independent national regulators who are members of this new international organization, including the PCAOB. Observers at IFIAR meetings include the FSF, IFAC's, PIOB, IOSCO, IAIS, World Bank, European Commission, and the Basel Committee, again reflecting the increasingly interlocking nature of international regulatory relationships

CONCLUSION

What the financial crisis of 2008–2009 showed beyond any doubt is that the financial system is truly global. It is clear from the foregoing that a global effort of many organizations is underway to make integrated (financial and non-financial) reporting and regulation meet standards that will facilitate the flow of capital to all countries of the world, not just the wealthiest. It is also evident that the financial

situation in one country is driven by what happens in others, and it follows that the financial regulations of one country can affect all others. This has underlined the need for far greater coordination among regulators on a global basis in order to deal with, and perhaps avert, future worldwide economic disasters.

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